PUBLIC VERSION

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

TRADE POLICY STAFF COMMITTEE

CERTAIN STEEL PRODUCTS

INVESTIGATION NO. TA-201-73

EXCLUSION REQUEST

ON BEHALF OF

SUMITOMO METAL INDUSTRIES, LTD. &

QUALITY TUBING, INC.

Robert C. Cassidy, Jr.
John D. Greenwald
Leonard M. Shambon
John-Alex Romano
WILMER, CUTLER & PICKERING
2445 M Street, N.W.
Washington, DC 20037-1420
(202) 663-6000

November 13, 2001

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On behalf of Sumitomo Metal Industries, Ltd. ("SMI") and Quality Tubing, Inc. ("QTI"), we request exclusion of certain hot-rolled sheet for coiled tubing from any import relief ordered by the President in the Section 201 investigation of *Certain Steel Products*. In accordance with the guidelines established by the Office of the United States Trade Representative[1], we submit the following information in support of our exclusion request.

I. EXECUTIVE SUMMARY

There is no domestic production of hot-rolled sheet for coiled tubing used in deep, high-pressure well servicing. SMI makes the product in Japan and is one of only three foreign manufacturers of the hot-rolled steel needed to produce coiled tubing for use in deep, high-pressure wells. QTI purchases this product from SMI.

QTI uses the SMI hot-rolled sheet to make in the United States the coiled tubing for use in deep, high-pressure wells. This product must have carefully controlled residual elements, consistently high surface quality, dimensional tolerances far tighter than ASTM standards, and high yield, tensile, and elongation properties. There is no domestic substitute for this product.

QTI has domestic sources of steel for the manufacture of coiled tubing only for shallower wells with lower pressure. SMI and two other foreign steel producers are the only source of supply for domestic coiled tubing manufacturers of the most critical grades of steel needed for use in deep, high-pressure wells. Because any disruption in imports of the unique hot-rolled sheet for coiled tubing would make it impossible for U.S. well service companies to obtain U.S.-made coiled tubing for use in deep, high-pressure wells, this product should be excluded from any import relief ordered by the President.

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1 *See* 66 Fed. Reg. 54,321, 54,322-23 (Oct. 26, 2001).

II. PRODUCT INFORMATION

A. Commercial Name of Product and HTS Numbers

1. **Commercial Name**: Hot-rolled sheet for coiled tubing used in high pressure oil and gas wells.[2]

2. **HTS Classification**: 7208.37.0060, 7208.38.0090, 7208.39.0090, 7225.30.3050, and 7225.30.7000.

B. Physical Description of Product

We request exclusion of six grades of hot-rolled sheet for coiled tubing, which meet the following chemical, physical, and mechanical specifications[3]:

1. C (0.10-0.14%), Mn (0.90% Max), P (0.025% Max), S (0.005% Max), Si (0.30-0.50%), Cr (0.50-0.70%), Cu (0.20-0.40%), Ni (0.20% Max); Width = 44.80 inches maximum; Thickness = 0.063-0.198 inches; Yield Strength = 50,000 psi minimum; Tensile Strength = 70,000-88,000 psi;

2. C (0.10-0.16%), Mn (0.70-0.90%), P (0.025% Max), S (0.006% Max), Si (0.30-0.50%), Cr (0.50-0.70%), Cu (0.25% Max), Ni (0.20% Max), Mo (0.21% Max); Width = 44.80 inches maximum; Thickness = 0.350 inches maximum; Yield Strength = 80,000 psi minimum; Tensile Strength = 105,000 psi Aim;

3. C (0.10-0.14%), Mn (1.30-1.80%), P (0.025% Max), S (0.005% Max), Si (0.30-0.50%), Cr (0.50-0.70%), Cu (0.20-0.40%), Ni (0.20% Max), V (wt.) (0.10 Max), Cb (0.08% Max); Width = 44.80 inches maximum; Thickness = 0.350 inches maximum; Yield Strength = 80,000 psi minimum; Tensile Strength = 105,000 psi Aim;

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[2] This product comes under Category 3 (Hot-rolled sheet, strip, & coils) of the International Trade Commission's product classification.

[3] The first four grades were excluded from the recent antidumping investigation of hot-rolled steel products from Japan. *See Antidumping Duty Order; Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products from Japan*, 64 Fed. Reg. 34,778, 34,779 (June 29, 1999). We request exclusion of two additional grades that [DELETED MATERIAL].

4. C (0.15% Max), Mn (1.40% Max), P (0.025% Max), S (0.010% Max), Si (0.50% Max), Cr (1.00% Max), Cu (0.50% Max), Ni (0.20% Max), Nb (0.005% Min), Ca (Treated), Al (0.01-0.07%); Width = 39.37 inches; Thickness = 0.181 inches maximum; Yield Strength = 70,000 psi minimum for thicknesses <= 0.148 inches and 65,000 psi minimum for thicknesses >0.148 inches; Tensile Strength = 80,000 psi minimum.

5. C (0.10-0.15%), Mn (1.30-1.80%), P (0.025% Max), S (0.007% Max), Si (0.30-0.50%), Cr (0.30-0.70% Max), Cu (0.20-0.40 Max), Ni (0.20% Max), Mo (0.40% Max), Nb (0.08% Max), V (0.10% Max); Width = 44.80 inches maximum; Thickness = 0.350 inches maximum; Yield Strength = 70,000 psi minimum (95,000-105,000 psi Aim)

6. C (0.10-0.16%), Mn (0.70-0.90%), P (0.020% Max), S (0.005% Max), Si (0.30-0.50%), Cr (0.50-0.70%), Cu (0.25% Max), Ni (0.20% Max), Mo (0.21% Max); Width = 44.80 inches maximum; Thickness = 0.350 inches maximum; Yield Strength = 51,500 psi minimum, 82,500 psi maximum; Tensile Strength = 70,000 psi minimum.

C. Basis for Exclusion

1. Statutory Basis for Exclusion

The statutory framework governing Escape Clause investigations requires the President to balance the economic welfare of the country with that of the affected industry in determining appropriate remedial action in response to an affirmative injury finding by the International Trade Commission. Section 203(a) of the Trade Act of 1974 states that, upon receiving the Commission's report, the President shall take "all appropriate and feasible action within his power which the President determines will facilitate efforts by the domestic industry to make a positive adjustment to import competition *and provide greater economic and social benefits than costs*."[4] Among other things, the President must consider "the short- and long-term economic and social costs of the actions authorized . . . relative to their short- and long-term social benefits

[4] 19 U.S.C. § 2253(a)(1) (emphasis added).

and other considerations relative to the position of the domestic industry in the United States economy."[5] The President must also consider "other factors related to the national economic interest of the United States, including, but not limited to . . . the effect of the implementation of actions . . . on consumers and on competition in domestic markets."[6] Ultimately, the cumulative impact of any import restrictions imposed may not "exceed the amount necessary to prevent or remedy the serious injury" found.[7]

Where there is no domestic production of a product consumed in the United States and no domestically available substitute, restricting imports of the product will harm domestic consumers without providing any concomitant benefit to the domestic steel industry. Lack of domestic production is therefore a proper ground for excluding a product from import relief.

2. Factual Basis for Exclusion

Hot-rolled sheet for coiled tubing should be excluded from any import relief ordered by the President because it is not produced in the United States, is a necessary article for a particular end use, and requires special expertise to manufacture.

There is no domestic production of hot-rolled sheet to the specifications detailed above, which are designed to meet the requirements necessary to produce coiled tubing for deep in-well, high pressure servicing applications. This market is served by the largest and most technologically advanced well service companies in the world, including Halliburton, Schlumberger, BJ Services, and Baker Hughes, Inc., and many smaller companies. Substantially all of the coiled tubing that these companies purchase for well intervention, work over, drilling, and production is manufactured in the United States.

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5 *Id.* § 2253(a)(2)(E).
6 *Id.* § 2253(a)(2)(F)(ii).
7 *Id.* § 2253(e)(2).

Coiled steel tubing for in-well, high pressure servicing is unique because it must be a single piece of tube and can reach lengths of up to 30,000 feet. The hot-rolled sheet used to make coiled steel tubing for in-well, high pressure service must have carefully controlled residual elements, consistently high surface quality, dimensional tolerances far tighter than ASTM standards, and high yield, tensile and elongation properties. Variations in these properties diminish the field performance and useful life of the tubing. The chemistry must be modified and the variation between heats must be tightly controlled to insure consistent properties over the entire length of the finished product. Without these consistent qualities, premature and catastrophic failures can occur, causing expensive damage to the producing wells of the customer.

SMI and two other foreign producers are the only manufacturers in the world of the hot-rolled steel needed to produce coiled tubing for use in deep in-well, high pressure servicing. As the President of QTI explains in an October 5, 2001 letter (*see* Exhibit A), QTI has worked with SMI for more than 15 years to develop the materials needed to manufacture coiled tubing for this special application. QTI holds a patent on tubing with a tapered internal diameter that is required for high pressure, in-well applications. This tubing requires the production of hot-rolled coils with a gauge that varies to precise standards from one end of the coil to the other. Despite QTI's requests, no domestic steel mill has been willing to attempt the production of this uniquely tapered coil. SMI was able to produce this coil only after a substantial development effort and use of enhanced computer control systems for their rolling mill. Without SMI's product, QTI could not produce coiled tubing for use in deep, high-pressure wells.

In an October 25, 2001 letter (*see* Exhibit B), the International Coiled Tubing Association ("ICoTA") confirms that foreign steel producers still supply the coiled tubing manufacturers with

the most critical grades of steel needed for use in deep, high-pressure wells.[8] Before manufacturers were able to obtain these superior sources of hot-rolled coil, the coiled tubing service industry was plagued by operations failures. ICoTA requests exclusion of hot-rolled sheet for coiled tubing because, without the availability of premium grades of hot-rolled coil, U.S. well service companies will be drastically limited in the services they could perform for the oil producers of the world.

Any disruption in imports of the unique hot-rolled sheet for coiled tubing would make it impossible for U.S. well service companies to obtain U.S.-made coiled tubing for use in deep, high-pressure wells. Accordingly, hot-rolled sheet for coiled tubing should be excluded from any import relief ordered by the President.

D. Names and Locations of Foreign and Domestic Producers

Foreign Producers: SMI (Japan).[9]

Domestic Producers: None.

E. Total U.S. Consumption[10]

Actual Consumption

	1996	1997	1998	1999	2000	Jan-June 2000	Jan-June 2001
Quantity (ST)	[9,900	8,040	16,632	10,024	13,303	8,135	7,186]
Value[11] **($000)**	[5,574	4,606	8,180	5,675	7,046	4,448	3,444]

[8] ICoTA's membership includes both customers and manufacturers of coiled tubing.

[9] USINOR (France) and NKK Corporation (Japan) manufacture comparable products, which they sell to Precision Tube Co. and SeaCAT, respectively. [DELETED MATERIAL]

[10] Consumption data (actual and projected) reported in this public version have been summarized by ranging (+/- 10%). Consumption levels (actual and projected) reflect only QTI's consumption of SMI's product.

Projected Consumption[12]

	2001	2002	2003	2004	2005
Quantity (ST)	[14,128	15,790	16,577	15,691	16,789]
Value ($000)	[9,067	7,799	8,257	10,450	9,149]

F. Total U.S. Production

None.

G. U.S. Produced Substitutes for Imported Product

As QTI explains in its letter (*see* Exhibit A), there is no domestic substitute for SMI's product. Although QTI has secured domestic sources of steel for the manufacture of its coiled steel tubing in recent years, QTI uses this domestic steel to produce coiled tubing only for shallower wells with lower pressure, or for applications not subject to repeated coiling and uncoiling stresses. SMI still supplies QTI with the most critical grades of steel needed for use in deep, highly pressured wells, where the tubing is subjected to repeated coiling and uncoiling stresses.

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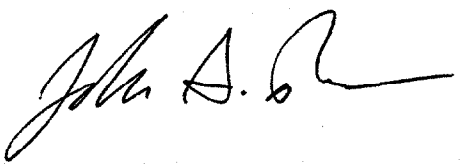
11 The value data reported for U.S. consumption are estimated landed, duty paid values based on export values.

12 The projected consumption quantities reflect QTI's anticipated consumption needs. QTI anticipates a [DELETED MATERIAL]. The projected values reflect the landed, duty paid unit value of the product for the first half of 2001.

III. CONCLUSION

Because domestic steel producers cannot manufacture hot-rolled sheet for coiled tubing to the specifications required for deep, high pressure in-well servicing, it should be excluded from any import relief ordered by the President.

Respectfully submitted,



WILMER, CUTLER & PICKERING

Robert C. Cassidy, Jr.
John D. Greenwald
Leonard M. Shambon
John-Alex Romano

Counsel for Sumitomo Metal Industries, Ltd.

EXHIBIT A:

CUSTOMER LETTER

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Quality Tubing
P.O. Box 9819
Houston, Texas 77213-0819
10303 Sheldon Rd.
Houston, Texas 77049-1254
281-456-0751 / 800-486-0751
281-456-7620 Fax
www.qualitytubing.com

Quality Tubing
A Varco Company

October 5, 2001

Lynn Featherstone
Director, Office of Investigations
International Trade Commission
500 E Street, S.W.
Room 615
Washington, D.C. 20436

Re: *Certain Steel Products* (Inv. No. TA-201-73)

Dear Ms. Featherstone:

Quality Tubing Inc. ("QTI") hereby requests that the Commission exclude certain hot-rolled sheet used to make coiled tubing for use in deep, highly pressurized oil and gas wells from the above-captioned investigation. This product was excluded from the antidumping investigation of *Certain Hot-Rolled Flat-Rolled Carbon Quality Steel Products from Japan*. QTI purchases this product from Sumitomo Metal Industries, Ltd. ("SMI") in Japan.

QTI purchases the hot-rolled sheet to its own specifications, which are designed to meet the requirements necessary to produce coiled tubing for deep in-well, high pressure servicing applications. The market for such well servicing is served by the largest and most technologically advanced well service companies in the world, including Haliburton, Schlumberger, BJ Services and Baker Hughes, Inc. Coiled steel tubing for in-well, high pressure servicing is unique because it must be a single piece of tube and can reach lengths of up to 30,000 feet. It is not like conventional tubing used for well intervention, work over, drilling, and production. The hot-rolled sheet used to make coiled steel tubing for in-well, high pressure service must have carefully controlled residual elements, consistently high surface quality, dimensional tolerances far tighter than ASTM standards, and high yield, tensile and elongation properties. Variations in these properties diminish the field performance and useful life of the tubing. The chemistry must be modified and the variation between heats must be tightly controlled to insure consistent properties over the entire length of the finished product. The finished hot-rolled sheet must be void of any defects such as rolled in fragments, surface irregularities, or segregation of elements because these defects cannot be tolerated for deep, in well, high pressure work. Without these consistent qualities, premature and catastrophic failures can occur, causing expensive damage to the producing wells of the customer.

QTI has worked with SMI for more than 15 years to develop the materials needed to manufacture coiled tubing for in-well, high pressure servicing. QTI has also worked with

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Quality Tubing
A Varco Company

domestic steel suppliers to develop coiled tubing materials and, in recent years, has secured domestic sources of steel for the manufacture of some of its coiled steel tubing. However, QTI uses this domestic steel to produce coiled tubing only for shallower wells with lower pressure, or for applications not subject to repeated coiling and uncoiling stresses.

SMI still supplies QTI with the most critical grades of steel needed for use in deep, highly pressured wells, where the tubing is subjected to repeated coiling and uncoiling stresses.

QTI holds a patent on tubing with a tapered internal diameter that is required for high pressure, in-well applications. This tubing requires the production of hot rolled coils with a gauge that varies to precise standards from one end of the coil to the other. Despite QTI's requests, no domestic steel mill has been willing to attempt the production of this uniquely tapered coil. SMI was able to produce this coil only after a substantial development effort and use of enhanced computer control systems for their rolling mill. Without SMI's product, QTI could not produce coiled tubing for use in deep, high pressured wells.

Please contact us if you have any questions regarding this submission.

Sincerely,

David L. Daniel
President

cc: Robert B. Zoellick
United States Trade Representative

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EXHIBIT B:

LETTER FROM ASSOCIATION

ICoTA
International Coiled Tubing Association, Inc.

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October 25, 2001

Lynn Featherstone
Director, Office of Investigations
International Trade Commission
500 E Street, S.W.
Room 615
Washington, D.C. 20436

Re: ***Certain Steel Products*** **(Inv. No. TA-201-73)**

Dear Ms. Featherstone:

The International Coiled Tubing Association (ICoTA) hereby requests that the Commission exclude certain hot-rolled sheet used to make coiled tubing for use in deep, highly pressurized oil and gas wells from the above-captioned investigation. With a membership that includes both customers and manufacturers of coiled tubing, the ICoTA's mission is to enhance communication, gather technical expertise and promote safety, training competency and industry accepted practices.

Manufacturers of coiled tubing purchase the hot-rolled sheet to their own specifications, which are designed to meet the requirements necessary to produce coiled tubing for deep in-well, high pressure servicing applications. The market for such well servicing is served by the member companies of ICoTA, including the largest and most technologically advanced well service companies in the world such as Haliburton, Schlumberger, BJ Services and Baker Hughes, Inc. Coiled steel tubing for in-well, high pressure servicing is unique because it must be a single piece of tube and can reach lengths of up to 30,000 feet. It is not like conventional tubing used for well intervention, work over, drilling, and production. The hot-rolled sheet used to make coiled steel tubing for in-well, high pressure service must have carefully controlled residual elements, consistently high surface quality, dimensional tolerances far tighter than ASTM standards, and high yield, tensile and elongation properties. Variations in these properties diminish the field performance and useful life of the tubing. The chemistry must be modified and the variation between heats must be tightly controlled to insure consistent properties over the entire length of the finished product. The finished hot-rolled sheet must be void of any defects such as rolled in fragments, surface irregularities, or segregation of elements because these defects cannot be tolerated for deep, in well, high-pressure work. Without these consistent qualities, premature and catastrophic failures can occur, causing expensive damage to the producing wells of the customer.

Prior to the manufacturers securing superior sources of hot rolled coil, the coiled tubing service industry was limited in scope and plagued by operations failures. The availability of large diameter and long, continuous tubing of high integrity enabled new, safe applications and opened new markets for coiled tubing. Today, the member companies of ICoTA that purchase and utilize coiled tubing in their field operations serve a worldwide market of approximately $1 Billion.

P.O. Box 5302, Bryan, TX 77805-5302
Telephone: 979 229 1753 Fax: 979 260 1822

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Foreign steel suppliers still supply the coiled tubing manufacturers with the most critical grades of steel needed for use in deep, highly pressured wells, where the tubing is subjected to repeated coiling and uncoiling stresses. Without the availability of these premium grades of hot rolled coil, the coiled tubing service companies would be drastically limited in the services they could perform for the oil producers of the world.

Please contact us if you have any questions regarding this submission.

Sincerely,

Jimmy F. Holmes
Administrator
International Coiled Tubing Association

cc: Robert B. Zoellick
United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

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DOCUMENT

P.O. Box 5302, Bryan, TX 77805-5302
Telephone: 979 229 1753 Fax: 979 260 1822